

The

PRIVATE CLUB ADVISOR™

A Letter to the Directors, Officers, Owners and Managers of Private Clubs

January 2010

Dear Club Executive,

In January of 1990, the first issue of the *Private Club Advisor* opened with the following words:

Welcome to the Private Club Advisor, a new monthly business letter for the leaders of private-membership clubs. Through the PCA we will serve you and other busy club executives -- owners, directors, officers and managers -- by providing the concise information you need to meet your responsibilities.

Twenty years later, our commitment to supporting and informing private club leaders continues. We have clearly entered a unique chapter in the history of private clubs and *PCA* will continue to focus on presenting a careful balance of new ideas and foundational issues so that whether you are new to your club's leadership team or a veteran, the *Private Club Advisor* continues to provide the tools you need to succeed.

BEWARE OF GHOSTS IN FIXED ASSET REPORTING... Haunted by unnecessarily high insurance premiums and inaccurate depreciation schedules? CPA Mark Alviano reported in a recent issue of the "Club Capital Planners" e-letter that as much as 65 percent of all city and country club fixed asset data is incomplete, inaccurate or missing. The solution, according to Alviano, is to conduct (or hire a qualified professional to conduct) an actual physical inventory of all items on the fixed asset list.

"Inaccurate fixed asset data results less from the acquisition process than from a disposal," Alviano said. "Most if not all clubs have items on their lists that have been lost, damaged or disposed of and yet those items remain on the books." His research indicates that invalid data translates into unnecessary personal property tax overpayments of 8 to 20 percent.

Once all the pieces have been identified, Alviano said clubs with large fixed asset inventories may want to consult their tax advisers to be sure that assets are categorized strategically to maximize tax benefits.

'BREAKING' THE RULES: WHEN DOES IT MAKE SENSE..? The Vice President of the United States and his entourage request permission to play golf at a private club, but the group is denied access because the club is for members only. A long-time member dressed in a sweatsuit faces being turned away from the club's main dining area during lunch service.

Such decisions probably follow "the letter of the law" for the clubs at which they occurred, but both were overturned. In the case of Joe Biden, the club reconsidered and granted access to the Vice President after receiving a second request on his behalf. While some may question granting such a privilege to anyone merely because of his status, a club must take care to make sensible decisions when it is under this kind of public scrutiny—and welcome the opportunity to be shown in a favorable light.

As for the dress code conundrum, the industry veteran who shared this story explained that the club's general manager happened to be watching as the underdressed member approached the dining room. He quickly ascertained that the member had just been released from the hospital, which explained his casual attire. He and his son had stopped at the club for lunch on their way home. In this case, compassion and understanding trumped strict interpretation of the club's rules.

While rule bending could be a slippery slope in a close-knit environment like a private club, adopting a hard line sometimes can be counterproductive. That brings us to the question of how the club's management and staff should understand and apply the rules. Do you as club leaders expect an unwavering hard line or does

appropriate member service require more flexible application? Do you want employees to make these decisions on a case-by-case basis? Does management understand your position—and perhaps just as important, is management, which usually is “on the firing line” when rules decisions have to be made, comfortable with the way club rules are applied?

CLUB TECHNOLOGY: WHAT’S IT WORTH AND WHY..? The good news? In an industry historically slow to adopt, clubs have actually made great strides in embracing technological advancements that improve the way they do business relative to where things stood a decade ago. One survey found, for example, that about 95 percent of private clubs have established a website for their members. The bad news? Research by the National Club Association indicates that many clubs are still operating with no formal IT plan or strategy and inadequate resources (human and financial) allocated for supporting their IT needs.

It may come down to how a club’s leaders categorize the cost of maintaining and updating the club’s technology. Is it viewed as a burden or an investment? Would the perspective be the same or different if the subject were their own businesses? In either case, it’s a timely question since the cost of new hardware and systems, like many other items, may be better now than when the economy rebounds. Consider the following observations about the value of investing in club technology:

- **Technology can reduce club labor costs.** Whether it’s something as ordinary as a point-of-sale system, which reduces ordering time, chance for error and miscommunication, or something as advanced as biometric time clocks that require every worker to punch in and out for themselves, technology used appropriately can save the club time and money.
- **Technology can reduce club operating expenses.** Email is the most basic case in point. Club employees can conduct timely, on-demand business communications with members at virtually no cost. The postage and handling cost savings alone can be significant when items such as member statements, newsletters, promotional notices, reminder letters and meeting minutes are sent through email. Systems that control resources such as electricity or water are another obvious example.
- **Technology expenditures can reduce operational risks.** Clubs that hold on to old technology risk serious business interruptions from untimely equipment failure, unrecoverable data loss and unresponsive vendors—as well as the costs associated with stop-gap measures to handle those emergencies.
- **Technology increases employee productivity.** Something as simple as the inclusion of individual check details on member statements eliminates the sorting, filing and stuffing of thousands of checks at month end. Electronic access to dining room tickets means the accounting staff won’t spend hours each month hunting through boxes of checks every time a charge is questioned.
- **Technology can improve member service.** Automation is helping some clubs forced to reduce staff do a better job of sustaining quality member service. For example, orders placed electronically improve accuracy and allow servers more time attending to members directly.

FOLLOWUP: DEALING WITH DIFFICULT MEMBERS... In our December 2009 issue, we outlined the components of a suspension letter relating to member misbehavior. (see “Member Discipline: The Anatomy of a Suspension Letter,” page 2). Our research for that item turned up everything from suspension letters for delinquent payments to boilerplate models of club suspension and expulsion procedures. We think this example of “grounds for suspension” covers the bases very well in five simple points:

- 1) Rudeness or insulting or harassing conduct towards a club employee, member or guest of a member.
- 2) Conduct which infringes on or limits the rights of other members to their fair use or enjoyment of the club facilities or programs.

- 3) The willful refusal to adhere to or to ensure that other family members adhere to club policies with respect to dress and conduct.
- 4) Conduct or comments, whether they are written or verbal, intended to bring the reputation of the club into public disrepute.
- 5) The initiation of litigation against the club, its officers, its directors, staff or members arising out of their involvement with the club or the member's relationship with the club.

We've posted a collection of our findings related to private club member suspension and expulsion in the "Focus Today" section at www.privateclubadvisor.com.

GREEN GAME PLAN FOR CLUBS... Clubs around the country are racking up remarkable savings by installing energy efficient upgrades and taking a new approach to standard club operations. According to a recent article in *Club Management* magazine, Broken Sound Club in Boca Raton, FL, expects to cut electric bills in half (a break of more than \$300,000) with a return on its original investment for the changes made within three years. While the 3,200-member club is far from average, smaller clubs are also gaining ground by going green.

At Broken Sound, the staff has joined Chief Operating Officer John Crean in efforts that include solar powered water heaters, a composting system that turns kitchen waste and grass clippings into fertilizer for the golf course and participation in government programs that provide credit for green efforts.

The field of green construction and renovation is growing rapidly, and a wealth of resources are available for businesses interested in learning how to improve efficiencies in a new or existing buildings. Certification programs such as LEED (Leadership in Energy and Environmental Design) by the U.S. Green Building Council and Green Globes by the Green Building Initiative have established guidelines and standards that may be helpful in identifying your club's strengths and weaknesses. Volume III of the *Club Facilities and Amenities Series*, a resource developed by the Club Managers Association of America, focuses on club-specific green design and renovation solutions.

UNDERSTANDING THE EVOLVING MEMBER MARKET... Recruitment and retention of members is a top priority for most clubs. The success of those efforts requires a clear understanding of the local market, and an awareness that the needs of your target group may be changing in ways that will affect their interest in club life. National Club Association President and CEO Susanne Wegrzyn highlighted some important trends in a meeting of club executives last summer. Statistics are compiled from the U.S. Census Bureau, Gallup and other sources:

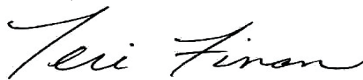
- Married couples with children represent 23 percent of American households and that number is declining. The number of "traditional families" has seen a 50 percent drop since 1960.
- Nearly 11 million Americans are cohabiting. Of those, about 9.7 million live with an opposite-sex partner and 1.2 million with a same-sex partner. That is a 72 percent increase in cohabiting since 1990.
- 51 percent of women are now living without a spouse with several factors contributing to that statistic:
 - * College-educated women are more likely to marry, but they are tying the knot two years later on average.
 - * Older women are outliving their spouses or not remarrying after a divorce.
- By 2014, women will comprise 47 percent of the total workforce in the United States.
- Women are now more likely to have graduate degrees and/or own small businesses.

SHORT TAKES... Credit-card surcharge? Our item suggesting that acceptance of credit cards by clubs may be unavoidable in the future (“Credit Card Use in Clubs,” page 4, December 2009 *PCA*) raised the question of whether a club could charge a service or handling fee, essentially passing the cost of the credit-card transaction on to the member. Clubs accepting credit cards should be aware that any type of surcharge added to a credit-card payment may violate their contract with the credit-card company. A club should make certain companies whose cards they accept do not forbid added charges.

Strings attached to tax-exemption forfeiture? One of our sources recently shared a letter in which the Internal Revenue Service told a 501(c)(7) tax-exempt club that it could not “merely stop being exempt.” The IRS reportedly told the club it would be considered tax-exempt until it either A) dissolved and disposed of its assets as required by law, or B) until the club’s “activities change and exempt functions are no longer conducted, and a revocation process is completed through an (IRS) examination.” In other words, our source said, “the IRS seems to be saying that unless the IRS actually revokes a club’s exempt status pursuant to an audit examination, the club will maintain its exempt status.” Rest assured the *PCA* will be following and reporting on this confusing development.

Keeping members covered. Last summer, in response to a growing number of members who had lost employer-sponsored health benefits, one East Coast club rolled out a Limited Accident and Sickness Medical Expense Plan for members in good standing along with their spouses or domestic partners and their children. While not designed as a long-term substitute for comprehensive medical insurance, the program offers some relief for freelancers, recent graduates and members whose employment is in transition. Drawing from a large base of total club membership, the size of the enrollment group makes rates affordable, with coverage starting at \$199 per month for singles.

Take care,



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Club Managers Association of America, Alexandria, VA – 703-739-9500 – www.cmaa.org.

United States Green Builders Association, Washington, DC – www.usgbc.org.

Green Building Initiative, Portland, OR – 877-424-4241 – www.thegbi.org.

National Club Association, Washinton, DC – 800-625-6221 – www.nationalclub.org.

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